

Introduction

The following report is for the exclusive use of the Kittery School Department in its review of potential options for providing educational services for students in grades 9-12. All calculations are based upon the 2010-11 budget and costs that would be at levels anticipated for the 2010-11 school year.

The goal of this analysis is to report the financial facts related to the topic under consideration and does not make any assumptions regarding the political, social or community values that are involved.

In some cases, it is necessary to estimate costs such as tuition rates for the upcoming school year. In each case, an explanation of how the estimate was developed accompanies the data that is provided.

As the narrative is developed for this report, it may be necessary to refer to the potential for tuitioning students as if it was a foregone conclusion. Be assured that no such conclusion is made and the wording is used simply to provide efficiency to the flow of the report.

This review assumes the following:

- That all 9-12 students will be served through one of two scenarios; either at Traip Academy or by being tuitioned to Marshwood High School in RSU # 35;
- That transportation will be available to Marshwood from and to designated points in Kittery;
- That costs allocated in the current budget are the true costs of operating Traip Academy for the current year;
- That the April 1 enrollment of 276 students will remain constant for the year; and,
- That a contract regarding tuitioning of students will be developed between the Kittery School Department and RSU # 35.

Current Operation at Traip Academy

The general fund budget allocation for Traip Academy for the 2010-11 school year is \$ 2,997,602. In addition to this allocation, there are expenses that are accounted for in the District-Wide and special education sections of the budget that are related to the operation of Traip Academy. Those expenses are for property and liability insurance, copier leasing and maintenance and the MLTI laptop program.

Total costs of the current operation for the school year are:

General Fund Budget	\$ 2,997,602
Property Insurance	\$ 17,123
Copier Lease/Maint.	\$ 22,925
Special Education	\$ 573,050
MLTI Laptops	<u>\$ 83,720</u>
Total Operating Cost	\$ 3,694,420

Special Education Services

In considering this portion of the Traip Academy services, it is important to state that the responsibility for the individual services required for each student will remain the responsibility of the Kittery School Department, regardless of where those services are provided. When special education students are served at a high school charging tuition, the cost of providing those services is traditionally an additional cost beyond the tuition rate that is established.

It is rational to assume that there will be a reduction in the total cost of providing special education services for the Kittery students based on the economy of scale that will be achieved by adding Kittery students to those already being served at the new site. However, each student's program is governed by an IEP (Individual Education Plan) and it is possible that there will be additional staff and program needs at the receiving high school beyond what is currently available.

At the present time, the direct instructional costs related to the special education services at Traip Academy are \$573,050. It is difficult to project accurately the exact savings to be achieved until each of the students IEP's have been reviewed alongside of the current programs available at the serving high school. However, it is reasonable to assume that a reduction in costs between 20-30% would be achievable for the services required by the current population of students. Using 25% as a guideline, the **cost savings in this area would be \$143,260.**

Until all of the special education students are placed in an appropriate program and the PETs (Pupil Evaluation Teams) have reviewed them, the actual cost/benefit regarding special education of the change in site will not be able to be determined. However, the 25% reduction should be achievable, even if some additional programming is needed beyond what currently exists. It is logical to assume that the special education populations being served locally in high schools in Southern Maine are somewhat similar and that both the receiving as well as the sending units would benefit from combining programs.

Transportation

The Kittery School Department currently has a contract for transporting its students with Ledgemere Transportation Inc. This contract is in effect through the 2014-15 school year and covers transportation needs based upon the current school operation.

If the students are tuitioned to Marshwood High School, a minimum of four additional buses may be needed to provide service from Kittery to Marshwood and return on a daily basis. If a late bus is provided for after school activities, that will also be an additional cost beyond the current contract.

The additional cost for each of the above services is estimated as follows:

For the 2010-11 year, the cost for four buses would be \$ 190,040;

These numbers are provided by the bus Contractor, Ledgemere Transportation Inc. and are based upon the current contract with the Kittery School Department. If additional bussing is needed in the future, the cost of adding a run based on the information provided is \$ 47,510. At a number of 276 students, if all of them wished to be bussed to Marshwood, a fifth bus may be necessary.

Tuition Cost Estimate

Following is a table that displays the last four years of tuition rates for both Marshwood High School and the State average. A longer term display of historical tuition rates can be found at the end of this report in Appendix "A".

Tuition rates for the current school year will not be available until late November or early December. Therefore, it is necessary to use an estimated tuition rate to determine the cost of sending all of the 9-12 students to Marshwood High School.

It is assumed that the Kittery School Department will negotiate a formal tuition contract with RSU # 35 if the decision is made to move in that direction. Tuition contracts between school units may be negotiated for a period of 2-10 years (Title 20-A, section 1258) and the receiving school system must give the sending school system a minimum of a two-year notice if it decides to discontinue the practice of receiving tuition students.

From this chart, it is evident that in some years, the tuition rate at Marshwood is below the State Average and in some years it is the same. **Tuition rates are capped at the State Average, but may be lower than the state average.**

Tuition Rates - Historical Data

Year	SAD 35	Yr./Yr Change	State Av	Yr./Yr. Change
2009-10	\$8,712.00	1.86%	\$8,896.00	4.01%
2008-09	\$8,553.00	8.35%	\$8,553.00	6.39%
2007-08	\$7,894.00	4.81%	\$8,039.00	5.53%
2006-07	\$7,532.00	17.30%	\$7,618.00	5.73%
2005-06	\$6,421.00		\$7,205.00	

Estimated Tuition for 2010-11

Estimated State Av. Tuition	\$9,378.00	5.42%*
*Average change in tuition over the last four years		

For the purposes of this report, an estimated tuition rate for 2010-11 is determined by multiplying the 2009-10 State Average rate by the average increase in the state rate for the past 4 years.

If all Traip Academy students were to be tuitioned to Marshwood High School for the 2010-11 school year, the estimated tuition cost would be as follows:

276 students multiplied by the estimates rate of \$ 9,378.00 = \$ 2,588,328.00

Other Costs and Considerations

Unemployment Compensation:

The Kittery School Department is self insured for the purposes of providing unemployment compensation to employees that lose their job and are unable to find new employment. There are currently 62 employee positions at Traip Academy. In a worse case scenario, if the students were tuitioned to Marshwood, the School System would be liable for the complete cost of the Unemployment Compensation for all of those employees.

The estimated cost below is based upon the assumptions that none of the employees would have found new employment and that there are no other employers responsible for any part of the unemployment costs. While this is unlikely, it is necessary to consider this worst case possibility.

The potential cost for 62 employees in year one of unemployment \$ 536,910.

The potential cost for 62 employees in year two of unemployment \$ 322,164.

These costs would be one-time costs and would not recur under current regulations after the second year of unemployment. These estimates are the result of recommendations from an unemployment compensation pool manager and are based upon the current salaries being paid to Traip Academy employees.

For each employee that found new employment the maximum reduction in liability for the School Department is \$ 10,000 in year one and approximately \$ 6,000 in year two.

Cobra Obligation:

Currently when an employee is terminated from employment, they have a right to continue with their health insurance benefit for a period of up to two years. The cost for this is generally born completely by the employee with some recent changes which resulted from the stimulus money provided by the federal government.

For a period of time, as part of the federal stimulus package, an employer was responsible for 65% of the premium cost of health insurance for an employee who was involuntarily laid off from work. The

period of time allowed for this benefit has been changed by the Congress through extension of the benefit. However, that provision expired May 31, 2010 and has not been reinstated as of this date.

At the present time, there is no financial obligation to maintain payment of health insurance premiums for laid off employees, unless such provisions are included in collective bargaining agreements. It is not known if this provision will be considered for reinstatement by Congressional action at some time in the future.

Tuition Rate Increases:

It is appropriate to assume that the tuition rate is likely to rise over time, even with the protection of a long-term contract for tuition purposes. However, due to the method used to calculate tuition costs, it is also appropriate to assume that the cost of educating students at Traip Academy would increase at approximately the same rate which would keep the relative costs of both possibilities in a similar relationship to one another.

Disposition of Traip Property:

For the purposes of this report, it is assumed that the School Department will dispose of the building and grounds at Traip Academy and will no longer maintain any costs for maintenance or operation.

The first step in this process is to offer the property to the Town of Kittery, if the town wishes to become the owner. If that should not occur, the School Department is then free to place the property on the market for sale or lease.

State Subsidy for Education:

Currently, the Kittery School Department is a “minimum” receiver of State Subsidy in support of the educational program. This status provides Kittery with a share of the special education allocation for the system and contributions for State approved debt. The debt that is currently subsidized for Traip Academy will be retired as of the 2010-11 school year and will no longer be a factor on either the expenditure side or the subsidy side of financial considerations.

As a “minimum” receiver, Kittery will continue to receive small amounts of subsidy based upon the formula determined on an annual basis. In the last several years, the minimum subsidy has been as high as 84% of the special education allocation and as low as 35% of the special education allocation. The minimum allocation for the 2011-12 year is 30% of the special education allocation. There is no way to determine what the future will be for minimum receiver amounts as it may be considered annually by the legislature.

COST COMPARISON
Tuitioning Students V. Traip Academy Costs

Operation:	Current	Comments
General Fund Budget	\$2,997,602.00	From 2010-11 budget
Property Insurance	\$17,123.00	Current Cost
Copier lease/mtn.	\$22,925.00	Traip Academy Share
MLTI Lease/purchase	\$83,720.00	Per year through 2013
Special Ed. Direct Instruction	\$573,050.00	
Total	\$3,694,420.00	
Estimated Cost for Tuitioning		
Est. State Av. Tuition	\$2,588,328.00	
Additional Transportation	\$190,040.00	For four busses add \$47,510.00 for addtl.
Special Ed. Direct Instruction	\$573,050.00	
Saving in Special Education	-\$143,260.00	Based on 25% red.
MLTI Lease/Purchase	\$83,720.00	Ends in 2013
Total	\$3,291,878.00	
Net Reduction in Cost Prior to U.C. costs	\$402,542.00	

With the worst case scenario for unemployment compensation the net result for the first three years of tuitioning students is as follows, assuming that all other factors remain static:

Year One:	Cost reduction \$402,542	Cost of U.C. \$536,910	Net (\$134,374)
Year Two:	Cost reduction \$402,542	Cost of U.C. \$322,164	Net \$ 80,378

Year Three:	Cost reduction \$402,542	Cost of U.C. \$0.00	Net \$402,542
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If however, a portion of the employees that were laid off were to find employment, the cost of the Unemployment Compensation payments would decrease proportionately.

If 20 % of the laid off employees were to find work by the time their employment year ended, the Year One – Three net results would be as follows:

Year One:	Cost Reduction \$402,542	Cost of U.C. \$429,528	Net (\$26,986)
Year Two:	Cost Reduction \$402,542	Cost of U. C \$257,731	Net \$144,811
Year Three:	Cost Reduction \$402,542	Cost of U. C. \$0.00	Net \$402,542

If 40% of the laid off employees were to find work by the time their employment year ended, the Year One-Three net results would be:

Year One:	Cost Reduction \$402,542	Cost of U.C. \$322,146	Net \$80,396
Year Two:	Cost Reduction \$402,542	Cost of U.C. \$193,298	Net \$209,244
Year Three:	Cost Reduction \$402,542	Cost of U.C. \$0.00	Net \$402,542

This cost comparison does not take into account any incidental costs that may occur due to negotiation of a tuition contract or for disposition of the property. The incidental costs should not be significant.

PUBLIC HIGH SCHOOL TUITION RATES

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